

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.014

RESPONSIBLE WITNESS: MATUSZAK

b. In those instances where original invoices were questioned by Peoples' personnel as described in the Company's response to SDR 1.014(a), those invoices were retained until a corrected invoice was received.

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RESPONSE TO DATA REQUEST: SDR 1.015

RESPONSIBLE WITNESS: MATUSZAK

15. REQUEST:

~~Identify and explain any factors which limited the Company's available purchasing and contracting options for the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.~~

RESPONSE:

Because of the highly technical and specialized nature of the goods and services that are required for the remediation of sites where MGP operations were formerly conducted, the Company engages reliable vendors who possess a high level of proven technical experience and expertise. When choosing to solicit or engage a vendor for a particular project, the Company will have considered many factors, such as the vendor's prior MGP experience; the vendor's experience at sites within the United States Environmental Protection Agency's, Region V ("USEPA"); the vendor's reputation in the industry; the Company's past experience with the vendor; its general capabilities; its general approaches to environmental investigations; billing methods and rates; projected implementation costs; and the professional qualifications and experience of those individuals who would perform work on the project.

Moreover, the Company will not engage a vendor where a conflict of interest will arise. Such a situation may occur where the vendor has performed services for certain governmental agencies or other parties whose interests may be adverse to those of the Company.

The Company's purchasing and contracting options can also be limited by circumstances that are imposed by external forces which are largely beyond the Company's control. For example, the Company may be required to take immediate action in response to requirements imposed by a court. Sometimes the Company's options can also be limited by the demands of a potentially responsible party ("PRP"). The Company may be required to respond to requirements imposed by an environmental regulatory agency such as the USEPA or Illinois Environmental Protection Agency.

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.016

RESPONSIBLE WITNESS: MATUSZAK

16. REQUEST:

~~Identify and explain all efforts that the Company made during the reconciliation period to take advantage of favorable market conditions to renegotiate its contracts or to purchase from alternative market sources the goods and services required for the environmental cleanup of MGP sites. If no contract renegotiations were attempted, explain why not.~~

RESPONSE:

As is indicated by the Company in its response to SDR 1.006, the complex problems posed by former MGP site remediation require that the Company engage only highly specialized and experienced environmental engineering consultants, chemical laboratories, law firms, insurance archaeologists, community relations consultants and other reliable vendors of MGP related goods and services. The Company's experience during fiscal 1999 did not disclose that the market for such highly specialized goods and services had significantly changed during the reconciliation period such that would have dictated that price concessions could be extracted from currently engaged vendors. As a result, the Company did not have an occasion to renegotiate the terms of its arrangements with vendors during the reconciliation period because of favorable market conditions.

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.017

RESPONSIBLE WITNESS: MATUSZAK

17. REQUEST:

~~This request pertains to any occurrences when the Company made purchases or entered into contracts using criteria other than minimizing the cost of the environmental cleanup of MGP sites.~~

- a. List any occurrences during the reconciliation period when the Company made purchases or entered into contracts using criteria other than minimizing the cost of the environmental cleanup of MGP sites.
- b. For each occurrence, explain the circumstances, quantify the extra costs incurred, and explain what, if anything, can be done to prevent extra costs of this type from being incurred in the future.
- c. Prove all documentation pertaining to each occurrence.

RESPONSE:

a.-c. None.

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.018

RESPONSIBLE WITNESS: MATUSZAK

18. REQUEST:

~~This request pertains to the Company's procedures to minimize MGP environmental cleanup costs.~~

- a. Explain with specificity the procedures used by the Company to minimize MGP environmental cleanup costs.
- b. Give a detailed description of these procedures as they related to all purchasing and contracting decisions for MGP environmental cleanup costs made during the reconciliation period.

RESPONSE:

- a. The most effective way for the Company to minimize MGP environmental cleanup costs is to be actively involved in the determinations that are made regarding the timing, the choice and the scope of the environmental activities that are undertaken at each of its former MGP sites.

The choices that are made relative to the timing of the Company's MGP cleanup projects reflect the Company's broad based, multi-year strategy to address the environmental condition of its former MGP sites. It is necessary to control the timing of these projects to the fullest extent possible so as to allow the Company to keep the costs of its service competitive, in the short term as well as in the long term. Therefore, the Company will initiate a project only when it is determined prudent to do so.

However, it is not always possible for the Company to control the timing of its environmental cleanup projects. Factors that are beyond the control of the Company may intervene to compel the commencement of an environmental cleanup project prior to the time the Company had planned to commence the project. Such factors may include the issuance of an order by an environmental regulatory agency (the Illinois Environmental Protection Agency or the United States Environmental Protection Agency), or the judgment of a court, or action initiated by a current or former landowner.

Once an environmental cleanup project has begun, the Company engages one or more carefully chosen, highly specialized and experienced vendors of MGP related goods and services to perform the tasks that are described in the Company's response to SDR 1.002(b). The criteria used by the Company to identify such vendors are also described in the Company's response to SDR 1.002(b). The procedures used to notify and engage such vendors are described in the Company's response to SDR 1.006.

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RESPONSIBLE WITNESS: MATUSZAK

By engaging only highly specialized, qualified and experienced vendors, the Company is better able to actively and effectively participate in the decisions that are made relative to the choice and scope of environmental activities that are to be undertaken at any of the Company's former MGP sites. This active participation enables the Company to effectively negotiate with the environmental regulatory agency so as to ensure, to the greatest extent possible, that the choice and scope of the environmental activities to be undertaken at any of the Company's former MGP sites results in the lowest possible cost to ratepayers, yet in a manner that is consistent with safety, reliability and quality assurance. This active participation is necessary because environmental regulatory agencies do not necessarily have as strong a desire as the Company to minimize cleanup costs to the fullest extent possible.

Peoples' personnel also perform a variety of activities to ensure that MGP environmental cleanup costs are minimized. The Company incurs substantial costs in connection with these activities that are not recovered from ratepayers under Rider 11. These activities include: the monitoring of on-site investigation and remediation activities (described in detail in the Company's response to SDR 1.004); the monitoring of MGP environmental cleanup purchases and contracts (described in detail in the Company's response to SDR 1.014(a)); the verification of the quality of the items and services purchased and contracted for (described in detail in the Company's response to SDR 1.021).

In addition, the Company has actively and aggressively pursued potentially responsible parties ("PRPs") and its former and current insurance carriers for the recovery of contribution of the costs associated with its environmental projects. The pursuit of PRPs by the Company has already resulted in substantial monetary recoveries that have reduced the cleanup costs that are recovered under Rider 11.

b. Please refer to the Company's response to SDR 1.018(a) above.

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RESPONSE TO DATA REQUEST: SDR 1.019

RESPONSIBLE WITNESS: MATUSZAK

19. REQUEST:

This request pertains to the Company's after-the-fact evaluations of its purchasing and contracting decisions for MGP environmental cleanup costs.

- a. How often are after-the-fact evaluations conducted by the Company to review its purchasing and contracting decisions for MGP environmental cleanup costs?
- b. Provide a copy of all documents pertaining to these evaluations.
- c. Identify any decisions, recommendations, policy changes, and new procedures that have resulted from these evaluations.
- d. Provide the date when the three most recent after-the-fact evaluations were conducted and provide copies of those reports.
- e. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of the after-the-fact evaluations.

RESPONSE:

a. The Company utilizes a combination of an ongoing and an after-the-fact review of its purchasing and contracting decision making process, with an emphasis on the early identification of those matters that require attention or change. Accordingly, the Company reviews its purchasing and contracting decisions for MGP environmental activities on a regular basis. Peoples' personnel devote substantial time and resources in actively participating in the day to day decision making process relative to MGP cleanup projects, and interact on a near daily basis with vendors of the various specialized goods and services.

The ongoing review process that is employed allows Peoples' personnel to take necessary corrective action to ensure that the Company receives the quality goods and services that it contracted for at the lowest possible cost. This ongoing review process allows Peoples' personnel to effectively evaluate how a particular vendor staffs a project, and demand corrective action when necessary. For example, personnel from Peoples' Office of General Counsel routinely evaluate the allocation of a law firm's work among partners, associates and paralegals, and will demand changes appropriate to receiving the necessary work product at the lowest overall cost. Personnel from Peoples' Environmental Affairs Department will review the invoices received from environmental engineering consultants with the same goal in mind. The Company will also evaluate how a vendor deals with laboratories, landowners, other consultants and environmental regulatory agencies; the timeliness and thoroughness of its work product; the results it achieved and its professionalism.

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RESPONSE TO DATA REQUEST: SDR 1.019

RESPONSIBLE WITNESS: MATUSZAK

A review process described above is more effective in controlling costs and acquiring required services than an approach that is dependent upon a formal review after projects are completed. Reliance upon only an after-the-fact review would prevent the Company from taking corrective action until after a project is completed.

b. As indicated in its response to SDR 1.019(a), the Company relies on a combination of an ongoing and an after-the-fact review during the course of a project rather than relying on a review at the completion of a project. Therefore, no documents regarding a formal after-the-fact evaluation of MGP-related purchasing decisions exist.

c. Please refer to the Company's response to SDR 1.019(a) and (b).

d. Please refer to the Company's response to SDR 1.019(a) and (b).

e. Please refer to the Company's response to SDR 1.019(a) and (b).

North Shore Gas Company
DOCKET NO. 00-0443
RESPONSE TO DATA REQUEST: SDR 1.020

RESPONSIBLE WITNESS: MATUSZAK

20. REQUEST:

~~This request pertains to the Company's audits of its purchasing and contracting decisions for MGP environmental cleanup costs.~~

- a. How often are the MGP environmental cleanup purchasing and contracting functions audited by management using internal or external auditors?
- b. Provide the dates when the three most recent audits were conducted and provide copies of those audit reports.
- c. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of the these audits.

RESPONSE:

a. During fiscal year 1999, the Company believed that a formal audit focusing on environmental purchasing and contracting decisions was unnecessary given the Company's: 1) ongoing review of its MGP environmental cleanup purchasing and contracting procedures as described in the response to SDR 1.008; 2) monitoring of MGP environmental cleanup purchases and contracts as described in the response to SDR 1.014; 3) cost minimization procedures described in the response to SDR 1.018; 4) ongoing and after-the-fact evaluations of its purchasing and contracting decisions for MGP related environmental cleanup costs described in response to SDR 1.019; and 5) quality control procedures described in the responses to SDR 1.021.

During fiscal years 1994 and 1995, a formal audit was conducted by Peoples' Auditing Department relative to the Companies' acquisition of legal services, including those legal services which are related to MGP environmental cleanup. A copy of the audit report, dated November 29, 1994, is attached to the Company's response to SDR 1.008(b).

- b. Please refer to the Company's response to SDR 1.020(a).
- c. Please refer to the Company's response to SDR 1.020(a).

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RESPONSE TO DATA REQUEST: SDR 1.021

RESPONSIBLE WITNESS: MATUSZAK

21. REQUEST:

~~Explain the procedures used to verify the quality of the items and services purchased or contracted for regarding the environmental cleanup of MGP sites.~~

RESPONSE:

As was explained by the Company in its response to SDR 1.019(a), Peoples' attorneys and engineers interact on a near daily basis with the various vendors of the highly specialized goods and services that the Company requires for the cleanup of its former MGP sites. These goods and services are provided by environmental engineering consultants, chemical laboratories, law firms, insurance archaeologists, and community relations consultants.

As was explained by the Company in its response to SDR 1.019, Peoples' personnel devote substantial time and resources interacting with and directing the on-site and off-site activities of these vendors. This intensive interaction with vendors allows the Company to maintain quality assurance.

As was explained by the Company in its response to SDR 1.004, Peoples' engineers perform frequent site visits and continuously monitor the quality of the on-site activities that are conducted by the Company's environmental engineering consultants as they occur. This also enables the Company to verify the quality of the goods that were purchased for use at a particular site.

In turn, the Company's consultants direct and supervise the activities that are conducted by subcontractors. Depending on the particular site, an environmental regulatory agency will also monitor on-site activities. This multi-layered oversight procedure allows the Company to verify the quality of the goods and services it procures for on-site environmental activities.

Engineers from Peoples' Environmental Affairs Department also critically review the contents of the test results from analytical laboratories, drilling and well logs and other reports and documents that are submitted by the Company's environmental consultants relative to the environmental investigative phases that are conducted relative to a former MGP site. Peoples' engineers and the Company's environmental counsel review and provide comments on and suggest revisions to the reports that are prepared by the Company's environmental consultants for submission to an environmental regulatory agency. The environmental regulatory agency also reviews these reports

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RESPONSIBLE WITNESS: MATUSZAK

and will either approve them or require the Company to resubmit them with changes deemed necessary by the agency. Again, this multi-layered oversight procedure allows the Company to verify the quality of the goods and services that it procures for its environmental activities.

In addition, personnel from Peoples' Office of General Counsel closely interact with and direct the activities of the Company's environmental counsel, insurance counsel, and insurance archaeologist. Peoples' attorneys devote substantial time and resources in directing and critically reviewing the quality and timelines of the legal services performed by the law firms that have been engaged by the Company. These services by in-house attorneys, the costs of which are not recovered by the Company through Rider 11, are directed to ensuring that the Company receives the quality of services for which it contracted.

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RESPONSE TO DATA REQUEST: SDR 1.022

RESPONSIBLE WITNESS: MATUSZAK

22. REQUEST:

This request pertains to the policies and procedures for the quality control of items and services purchased or contracted for regarding the environmental cleanup of MGP sites.

- a. What are the Company's policies and procedures for dealing with items and services purchased or contracted for regarding the environmental cleanup of MGP sites which failed to meet quality and contract specifications?
- b. List each occurrence when items and services purchased or contracted for regarding the environmental cleanup of MGP sites failed to meet quality and contract specifications.
- c. Provide documentation of any related actions taken by the Company during the reconciliation period. If no documentation can be provided, explain why not.

RESPONSE:

- a. It is the Company's policy to withhold payment for items purchased and services retained whenever those items or services failed to meet quality related contract specifications. The Company's quality control procedures are described in the Company's response to SDR 1.021.
- b. Because of the Company's: ongoing involvement in, and direction of the on-site and off-site activities of vendors; multi-layered monitoring procedure; and because of the Company's policy of refusing to pay for items that fail to meet contract specifications, there were no occurrences during the reconciliation period when items and services purchased or contracted for failed to meet quality and contract specifications.
- c. As there were no occurrences during the reconciliation period when items and services purchased or contracted for failed to meet quality and contract specifications, no documentation exists.

Office of the President

Classification: General	ORDER 10	DATE October 1, 1996
Subject: Competitive Bid Policy	SUPERSEDING ORDER 10	DATED June 25, 1990

To Officers and Department Heads, and
Other Supervisory Personnel:

The Manager (Manager) of Purchasing and Stores (Purchasing), or the Manager's designated representative, has the authority and the responsibility for procurement of all materials, equipment, supplies and services (except Gas Supply related acquisitions) necessary to maintain the Company as a vigorous, growing, and profitable business enterprise. The acquisition of all materials, equipment and services, including but not limited to management consultants, computer services and equipment, construction projects, rentals and the disposal of salvage or scrap materials and similar items, shall be on the basis of Most Favorable Cost to the Company. The "Most Favorable Cost" is determined by considering and documenting, if necessary, all relevant factors including but not limited to: 1) direct charges for the service or supply; 2) transportation; 3) inventory costs; 4) handling, particularly the cost of Company labor; 5) quality of the vendor's previous product or service; and 6) efficiency of the vendor and its impact on the Company.

Except as specifically set forth herein, competitive bidding, proposals or negotiations shall be utilized. In order to determine the Most Favorable Costs, either proposals or competitive bids must be obtained. Requests for Proposals (RFP) should be made in those cases where there are alternative solutions.

Minority and Women Business Enterprises (MWBE)

In view of the significant portion of the Company's customers who are women and/or members of minority groups, the Company has an obligation to be certain that MWBE suppliers are afforded opportunities to do business with the Company, provided their supplies or services are of the type and quality required for our operations. A minority or a women owned business enterprise is defined as a business of which at least 50 percent is owned by women or minority group members or, in the case of a publicly-owned business, of which at least 51 percent of the stock is owned by women or minority group members. For the purpose of this definition, minority group members are African Americans (not of Hispanic origin), Asian Americans, American Indians/Alaskan Natives and Hispanic Americans. In order to assist MWBEs it will be necessary from time to time, where it appears that such prospective suppliers are attempting to become established, to place orders without following competitive bidding. Orders proposed to be placed where an exception to competitive bidding is to be made shall be approved by the Manager after determining that the price proposed by such a supplier is reasonable. The approved request shall be documented and retained in Purchasing. This non-competitive bidding practice will be available to a supplier only for such period as the supplier is deemed by the Manager to be in the process of organizing its business so as to effectively permit it to obtain business utilizing competitive bidding.

Special Materials, Services and Management Services

In certain circumstances, an Elected Officer may determine that specific materials, services or outside "management services", defined as a service of a specialized, professional, or

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highly technical nature, or one where an independent expert opinion is necessary or desirable, may be required. The responsibility for vendor contact and negotiation which is normally conducted by Purchasing shall, in these cases, be conducted by an Elected Officer or his designated representative in conjunction with Purchasing. While commitments related to such cases can be authorized by an Elected Officer without competitive bidding, they should be competitively acquired through Purchasing whenever practical utilizing an RFP. The Elected Officer over the area requiring such materials, services or management services will be responsible for approving any necessary contracts or agreements. The original executed copy of such contract or agreement shall be retained in Purchasing.

Purchase Requisitions and Convenience Blanket Orders

Purchase requisitions for items that are included in the Approved Capital Budget Plan require the approval of the department head requesting the acquisition and the Budget Department and such items are to be procured through Purchasing according to the guidelines established by this Order.

Purchase requisitions for non-capital items require approval in accordance with the General Order 12 - Approval of Disbursement Documents. Once approved, either manually or electronically, purchase requisitions are to be competitively bid according to the guidelines established by this Order.

In an effort to minimize the number of minor purchase orders and hasten the receipt of materials, equipment and services, "convenience blanket orders" may be established without competitive bids. These orders should be limited to items that do not have consistent purchase histories, can be procured at a reasonable price from vendors located near a Company workplace with greater convenience than through Purchasing or entail labor-related services for minor projects. The Manager or a designated representative may set monetary limits for individual shipments or projects and determine how convenience blanket orders are awarded.

Types of Competitive Bidding

Purchasing will request either oral or written bids or will send RFPs (including facsimile machine copies), in all cases except for those described as emergency procurement situations or when the required number of bidders are not available in accordance with the following guidelines:

Estimated Bid Amount

\$ 0 - \$ 9,999
\$ 10,000 - \$19,999
\$ 20,000 - \$99,999
\$100,000 and Above

Type of Bid Required

One phone
Three Phone
Three Written
Three Sealed

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Purchasing shall retain all contracts processed by it in accordance with the applicable record retention schedules.

If a bid was estimated to be under \$100,000 but is found to be over \$100,000 after receiving or opening the first bid, the Chief Auditor is to be notified and the applicable procedures for sealed bids are to be followed.

If a requisition is received for an item estimated at less than \$100,000 and an identical item has been competitively bid during the past one-hundred eighty (180) days and if market conditions have not changed, the bid can be awarded to the previous low bidder.

Multiple Sources of Supply

Whenever practicable, except where a supplier alliance (an agreement negotiated between the Company and the supplier that is entered into for the sharing of information to a greater extent than is typical in competitive bidding) have been established, the Company will attempt to insure that multiple sources of supply are maintained.

When an item to be bid is covered by an approved Company standard that was established by the Supplies Standardization Committee in accordance with Executive Order 11 - Directors, Officers and Committees (Company Standard), only those manufacturer's products listed on the standard can be solicited and obtained (except in those cases where alternative products are being acquired for evaluation).

For those items not covered by a Company Standard, where three or more bids are requested and only one bid is received and all reasonable efforts to secure additional bids have been unsuccessful or if time constraints do not permit the solicitation of additional bids, approval shall be obtained from the Manager prior to the order being placed.

Dealing With Vendors

Vendor sales personnel are to be interviewed as soon as practical and have a fair hearing. All quotations received must be considered confidential and in no case divulged to a vendor's competition. Confidential quotations are those prepared on an individual basis for the Company. Published price lists are not considered in this confidential category.

Where competitive bidding is used, bids from reputable suppliers are not to be used to negotiate a reduction in prices from existing suppliers. Qualified vendors who submit a low bid that results in the Most Favorable Cost and who can perform must be awarded the purchases, subject only to those cases where multiple supply sources would be jeopardized, in which case, the low bidder shall receive the major portion of the purchase, whenever possible.

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In all cases, bids should be awarded on a basis that is in the best interest of the Company. Fairness and, except where a supplier alliance has been established, the desire to keep multiple sources of supply available, are two guidelines that should be followed.

Bids for multiple items can be split between two or more vendors in order to obtain a lower Most Favorable Cost. Support documentation shall be approved by the Manager or Administrator of Purchasing and retained by Purchasing.

Purchasing shall continue to maintain a list of approved vendors based on acceptable financial and service capabilities. New vendors should be added to such list whenever appropriate for the benefit of the Company.

No purchases are to be made solely on the basis that a prospective supplier is also a customer of the Company.

Access By Chief Auditor

The Chief Auditor or the Chief Auditor's representative will have access to all sealed bid opening times through the Purchasing, Inventory and Payable System (PIPS). Members of the Internal Auditing Department have the authority to attend the opening, and to open and record any sealed bid.


President

OFFICE OF THE PRESIDENT

Classification: General	ORDER 12	DATE August 13, 1998
Subject: Approval of Disbursement Documents	SUPERSEDING ORDER 12	DATED March 23, 1998

To Officers, Department Heads, and
Other Supervisory Personnel:

The term "disbursement documents," as used in this Order, includes purchase requisitions, vendors' invoices, payment requests, expense statements, cash disbursements (used for petty cash, cash advances, reimbursable expenses incurred in-town and payment to any one payee for business related expenses), forms authorizing miscellaneous payments to employees, forms authorizing refunds to customers and PGL's Risk Management (or NSG's Human Resources and Claim) Department claim drafts. Checks and drafts, other than claim drafts, are excluded from such definition. Formal contracts, public accounting firms' invoices, Corporate Contributions and Matching Gifts and payroll tickets are also specifically excluded from such definition as these are covered in one or more of the following Company documents: Company By-Laws, Board Resolutions, another General Order, a Procedure Letter or a Routine. Electronic transactions relating to any Company bank accounts are also excluded. Authorization for electronic transactions is limited to selected officers as stipulated by Board Resolutions.

Approvals shall follow the direct lines of organizational authority whenever possible. In all instances, the Chairman of the Board, President, Executive Vice President, Senior Vice President, Vice President, Treasurer, Assistant Vice President, Assistant General Counsel, General Manager of NSG, or officer designated by the divisional officer having authority over an area originating a disbursement document has the authority to approve any such document, and in each of the following instances it is a requirement:

- (a) a reimbursement to an employee of more than \$1,000;
- (b) a cash advance to an employee (including officers) of more than \$500 (also requires approval by the President); and
- (c) any other disbursement to a single payee of more than \$50,000.

However, except for cash advances of \$500 or less to an officer, which may be approved by that same officer, individuals may not approve reimbursements or disbursements to themselves.

The Managers of Community Affairs are authorized to approve payments of corporate memberships covered under the approved Corporate Membership Program.

The Special Claim, Claim, Senior Claim Investigators of PGL, the Manager of NSG's Human Resources and Claim Department, and NSG employees in the Human Resources Representative job family (in the absence of the Manager of NSG's Human Resources and Claim Department) are authorized to issue drafts of \$5,000 or less in settlement of claims. In addition, a payment request can be approved by the Supervisor or the Manager of PGL's Risk Management

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Department and the Manager of NSG's Human Resources and Claim Department up to \$50,000. The Director of the Funded and Insured Programs Department has authorization to pay all claims.

Approval of any purchase requisition for materials equipment and/or services that have been itemized and included in the Approved Capital Budget Plan (by the Board of Directors) may be given by the department head issuing the requisition (subject to Budget Department approval) in accordance with General Order 10 - Competitive Bid Policy. In addition, approval of any purchase requisitions and vendors' invoices affecting the Purchasing and Stores Department may be given by its Manager, or a designated representative.

Any disbursement document authorizing payment to any one payee of \$50,000 or less, with the exception of a reimbursement to an employee of more than \$1,000 or a cash advance of more than \$500, may be approved by the Office Manager of the Office of General Counsel.

Final written approval of any disbursement document for \$50,000 or less, but not including any document authorizing payment of a reimbursement to an employee of more than \$1,000 or a cash advance of more than \$500, may be given by the department or section head, or Field Manager, having line authority over the area. Additionally, in the Customer Service Division, in the absence of the Vice President and the Director of the Customer Relations Department, certain managers, as designated by the Vice President, are authorized to approve customer refunds up to \$2,000; certain management employees at the Neighborhood Offices are authorized, as designated by the Manager of Customer Care, to approve customer refunds up to \$1,000. The Leaders or Coordinators in the Human Resources Division shall have unlimited authorization for approval of payroll related payment requests.

Any unusual disbursement transaction shall be brought to the attention of the President, Executive Vice President, Senior Vice President, Vice President, Treasurer or Assistant Vice President having authority over the approving employee.

In the absence of all authorized employees including the officer having line authority over the area originating the disbursement document, and in the case of disbursement documents originated by the Chairman of the Board, the Controller or Assistant Controller may give approval.

Any deviation from other foregoing authorized approvals originating subsequent to the date of this Order shall be brought to the attention of the Controller and requires written approval of the appropriate divisional officer, Executive Vice President, Senior Vice President, or the President prior to its implementation.


President

Routine 101 - Purchasing Materials and Services

INTRODUCTION

This routine represents an overview of the process involved in the purchase and payment of materials and services. Additional documentation is available from the Purchasing and Stores and General Accounting Departments, in addition to the other departments referenced in this document. General Order 10 "Competitive Bid Policy" and General Order 12 "Approval of Disbursement Documents" are also valuable references. Related on-line documentation is available within the Purchasing, Inventory and Payables System ("PIPS").

PIPS ACCESS

Unless an employee has a 'CESN' sign-on to access PIPS, a request must be submitted to I. S. Technical Services (TS). When processing is complete, TS notifies the Security Administrator in the Purchasing and Stores Department (Purchasing) or General Accounting who then assigns the appropriate level of security for the userid.

PURCHASING

TYPES OF REQUESTS

PURCHASE REQUISITIONS

The purchase of any material or service begins with the completion of a Purchase Requisition in the PIPS system by the requesting department. After a Requisition Master is completed, a Requisition Detail must be completed for each item being ordered. If it is necessary to bypass competitive bidding (see General Order 10), a Bid Waiver must also be completed. If the request is for management/consulting services, a Request for Proposal (RFP) must also be completed (see General Order 10). Approved copies of the Requisition Master, Requisition Detail, and if necessary, any Bid Waiver, Contract, and RFP are forwarded to Purchasing. General Order 12 details the appropriate levels of approval required. If the commitment involves capital expenditures, additional approval is needed from the Budget and Control Department. If the commitment is a contract, additional review and/or preparation may be needed from the Office of General Counsel.

Routine 101 - Purchasing Materials and Services

SPECIALTY ITEMS

For the purchase of certain specialty items, the following departments must be contacted to order such items. Requests must be approved in accordance with General Order 12:

SPECIALTY ITEM	DEPARTMENT	FORM NEEDED
Computer hardware and software, copier and fax equipment (excluding paper and toner)	I. S. Planning and Administrative Services	Form 376
Office remodeling, office furniture, and miscellaneous business equipment	Office Services	Letter
Books, magazines and other publications	Employee Relations -Library	Letter
Security items and services	Safety and Security	Letter
Office supplies	Purchasing and Stores -Stationary Section	Form 521
Audio visual equipment	Public Relations	Letter
Postage	Customer Relations -Customer Receipts Section	Forms 671, 671A
Telephone Equipment	I.S. Technical Services	Form 827

CREDIT CARDS

Company issued credit cards should only be used in accordance with Policies and Practices Affecting Employees Order 45 "Issuance of Company Credit Cards" and Routine 6 "Company Issued Credit Cards".

BID PROCESS

Routine 101 - Purchasing Materials and Services

Upon receipt of a Requisition Master, Requisition Detail and any Bid Waiver, Purchasing reviews these documents for completeness and proper approvals. A buyer is assigned and selects potential vendors through an inquiry process. As part of this process, the buyer may combine requisitions, review historical bid and purchase information, and establish new vendors. The buyer evaluates the returned bids and awards the commitment to a vendor. Additional details on the bid process are available in General Order 10.

PURCHASE ORDERS/CONTRACTS

When a vendor has been selected, a purchase commitment is created by completing the Order Master and Order Detail screens. The purchase commitment can take the form of a Purchase Order or Contract, either of which can be for a one time commitment ("one shot"), or a blanket order which involves the receipt of the material or service over a period of time. Contracts are necessary for transactions greater than \$100,000, all main jobs, and as deemed necessary by Purchasing or the requesting department. Purchase Orders (approved by the Manager or Administrator of Purchasing), and approved Contracts are forwarded to the vendor.

If any service is to be performed on Company facilities, which includes work at Company locations and activities such as main jobs, the commitment also needs to be verified that the vendor has sufficient insurance coverage, for the work to be done. Risk Management maintains documentation relating to insurance requirements. Purchasing also has the authority to decide whether coverage is sufficient, based on guidelines established by Risk Management. If Purchasing's file indicates the vendor's insurance information has expired, the vendor will be contacted and an updated Certificate of Insurance will be requested. If the vendor's insurance coverage is inadequate, Purchasing may request a Waiver of insurance standards be considered by Risk Management. If the request is rejected, Purchasing will notify and advise the requesting department that written authorization to proceed must be obtained from the divisional Vice President.

Ordering of material or service on a receipted type blanket order or contract is done through a shipment release entered into PIPS by the requesting department. A release number is generated in PIPS for control purposes. The shipment release is forwarded to the vendor by the requester.

A confirming order is a commitment with a vendor recorded after the order has been given to the vendor. This should only be used in emergency situations.

A convenience order is a commitment with a vendor to purchase unspecified items over a period of time. An example would be an order with a hardware store. Rather than listing every possible item in its inventory, a general description with a dollar and time limit

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would be specified on the order . When issuing a shipment release, items are added at the order detail level as needed, and would be charged against the order limit amount.

CHANGE ORDERS

When it is necessary to make changes to contracts, purchase orders, or shipment releases, a change order is initiated in PIPS by the department who placed the original request. The Change Order Master and Detail are approved according to General Order 12 for changes in dollars or quantities, and forwarded to Purchasing for further processing. Department head approval is needed to extend the date of an order.

RECORDING RECEIPTS

If an order has been established as a receipted type, whether it is a one-shot or a blanket transaction, when the material or service is received, the actual items delivered are verified with any delivery ticket, and appropriate information is entered to the RCPT screen in PIPS by an authorized employee in the area that established the purchase order. Any questions regarding discrepancies between orders and actual receipts should be directed to Purchasing.

PAYABLES

The General Accounting Department is responsible for processing the payment of invoices and payment requests. When a payment request or a vendor invoice related to an approval type purchase order (an order set up so an authorized signature on the invoice indicates approval to pay) is presented to General Accounting for payment, approvals in accordance with General Order 12 need to be obtained before the payment can be executed in PIPS.

When processing invoices related to receipted type purchase orders, the receipt must be entered in PIPS by the appropriate department before payment can be made. After General Accounting has verified receipt, the payment can be executed and should be paid in order to take advantage of any favorable payment terms and the application of any outstanding credits.

When a prepayment is required, an approved Payment Request Form must be prepared and submitted to General Accounting. In these situations, care must be taken to avoid subsequent payment of the vendor generated invoice received, or a redundant submission of another payment request, after execution of the payment. An approved

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vendor's invoice detailing the goods or services received is preferred for payment. General Accounting discourages the use of payment requests whenever possible.

The General Accounting Department has a 'PIPS User's Guide and Instruction Manual' which further documents the payable process.

SUMMARY

As previously mentioned, the scope of this routine covers the purchase and payment of materials and services. Additional documentation is available on-line in PIPS, in General Order 10 "Competitive Bid Policy", and General Order 12 "Approval of Disbursement Documents".

OFFICE OF THE PRESIDENT

Classification:	ORDER	DATE
General	10	June 25, 1990
Subject:	SUPERSEDING ORDER	DATED
Competitive Bid Policy	10	May 1, 1989

To Officers and Department Heads:

Consistent with longstanding purchasing practice, the acquisition of all materials and services, including construction projects, rentals and the disposal of salvage or scrap materials and similar items, shall be on the basis most favorable to the Company. Except as specifically set forth herein, competitive bidding shall be obtained. When available, at least three qualified, reputable suppliers or contractors shall be solicited to bid. While it is the Company's policy to award the bid to the lowest responsible bidder, it recognizes that the lowest bid is not always the one most favorable to the Company. Consideration must be given to the Company's past experience with a product or vendor as well as the desire to maintain multiple sources of supply. Any deviation from the low bid policy for reasons such as the aforementioned must be documented in writing and approved by the Elected Officer in charge of the division or other reporting unit requesting the material or service. Deviations approved by the Elected Officer shall be properly documented in writing, a copy of which shall be forwarded to the Chief Auditor and a copy retained in the Purchasing and Stores Department. Purchases of materials and services that are not adaptable to competitive bidding shall, to the extent possible, be made on the basis of published price lists.

In addition to the aforementioned reasons for deviation from the Competitive Bid Policy, consideration must be given to the Company's commitment to assist minority vendors, the acquisition of management services and the special nature of computer hardware and software. The following sets forth the Company's rationale and policy in each of these areas.

In view of the significant portion of the Company's customers who are women or members of minority groups, the Company has an obligation to be certain that suppliers owned by women or minorities are afforded opportunities to do business

The Peoples Gas Light and Coke Company

OFFICE OF THE PRESIDENT

Also applicable
to North Shore
Gas Company

Classification:

General

ORDER

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DATE

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Subject:

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SUPERSEDING ORDER

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DATED

May 1, 1989

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with the Company provided their supplies and services are of the type and quality required for our operations. A woman owned or a minority business enterprise is defined as a business of which at least 50 percent is owned by women or minority group members or, in the case of a publicly-owned business, of which at least 51 percent of the stock is owned by women or minority group members. For the purposes of this definition, minority group members are Black Americans (not of Hispanic origin), Asian Americans, American Indians/Alaskan Natives and Hispanic Americans. Furthermore, in order to assist them in this objective in a major way, it will be necessary from time to time, to place orders without following competitive bidding in those cases where it appears that such prospective suppliers are attempting to become established. Orders proposed to be placed on the latter basis where an exception to competitive bidding is to be made shall only be recommended by the Manager, Purchasing and Stores (Manager) and the Director, Corporate Services, after determining that the price proposed by such a supplier is reasonable in light of prior Company purchases under previous competitive bidding arrangements. Such a request will be forwarded to the Elected Officer in charge of the Purchasing and Stores Department, or in his absence the Controller, for approval in each case before the order is placed. The approved request shall be properly documented in writing, a copy of which shall be forwarded to the Chief Auditor. Also, a copy shall be retained in the Purchasing and Stores Department. This non-competitive bidding practice will be available to any one supplier only for such period as such supplier is deemed by the Director, Corporate Services to be in the process of organizing his business so as to effectively permit him to obtain business under the normal Competitive Bid Policy of the Company.

In certain circumstances, an Elected Officer may determine that outside "management services" defined as a service of a specialized, professional, or highly technical nature, or one where an independent expert opinion is necessary

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or desirable, may be required. The responsibility for vendor contact and negotiation which is normally conducted by the Purchasing and Stores Department, shall in the case of management services, be conducted by an Elected Officer or his designated representative. While commitments related to such service can be authorized by an Elected Officer without competitive bidding, they should be competitively acquired utilizing a formalized Request for Proposal (RFP) whenever practical and appropriate. The Elected Officer shall be responsible for approving any contracts or agreements necessary to obtain such services. The original executed copy of such contract or agreement shall be forwarded to and filed in the Purchasing and Stores Department. Upon selection of a successful bidder, a Management Service Commitment form must be completed and forwarded to the Purchasing and Stores Department.

Certain responsibilities in the area of vendor contact and negotiation, generally performed by the Purchasing and Stores Department, shall be performed by I.S. Planning and Administrative Services or I.S. Technical Services Department in procurements involving computer hardware and software. The delegation of this responsibility is predicated on the fact that Company personnel involved in a transaction of this nature must have thorough knowledge of existing Company computer equipment and applications, and also be abreast with the current trends in the state of the art computer market. This market is highly specialized, in a constant state of change, expensive, and must be thoroughly analyzed in the best interest of the Company. If at all practical and appropriate, these items should be competitively bid. Upon selection of the appropriate equipment, a requisition shall be forwarded to the Purchasing and Stores Department in accordance with Procedure Letter No. 49. Purchase orders, repetitive service orders or contracts related to same shall be filed in the Purchasing and Stores Department.